

TRANSMITTAL # 7

MEMORANDUM

April 8, 2009

TO: Workforce Development Council

FROM: Roger B. Madsen, Director

Roger B Madsen

SUBJECT: American Recovery and Reinvestment Act of 2009 – Unemployment Insurance

ACTION REQUESTED: No Action, Information Only

The American Recovery and Reinvestment Act of 2009 provides for the following additional funding and adjustments to the Unemployment Insurance program:

A. Additional \$25 a Week in Unemployment Benefit Checks

The federal government is providing an additional \$25 a week in every unemployment benefit check to all workers who successfully establish a benefit claim by Dec. 20, 2009. This supplement, which Governor Otter authorized on Feb. 19, will provide about \$1.2 million a week to about 49,000 Idahoans when they receive their first augmented check during the week of March 1. The benefit is temporary and will expire when workers qualifying for unemployment benefits by Dec. 26 exhaust those benefits. Through July 3, 2010, when the last supplements will be paid, the program will provide between \$35 million and \$40 million in additional benefits to workers throughout the state. The additional money put into Idaho's economy is estimated to save 900 existing jobs. This money is being paid through the current unemployment insurance program, which is perpetually appropriated. This provision is essentially cost-neutral to the state.

B. Continue the Extended Unemployment Insurance Benefit Compensation Program

This provides additional federal extended benefits to claimants exhausting their state benefits between March 29 and Dec. 20. Tens of thousands of additional Idaho workers will qualify for these extra benefit checks. The value would average about \$1.2 million a week through May 2010, when the last of the extended benefit eligible claimants will exhaust their benefits – a total of as much as \$75 million in additional money funneled into the Idaho economy. The additional money put into the economy is estimated to save 1,700 jobs. These funds are provided as needed through the current unemployment insurance program, which is perpetually appropriated. The provision is cost-neutral to the state.

C. State Unemployment Insurance Operations Assistance

A \$2.236 million one-time unemployment insurance grant is being provided to the state to offset the administrative expense of handling the dramatic increase in demand for unemployment insurance

benefits and to improve the operating and administrative systems providing those benefits. There are no strings attached to this money other than it must be used for administration. It essentially helps offset the reductions in federal operating grants the state has suffered since 1980. By the time this money has been spent – by mid-2011 or before – the Idaho economy should be on the mend, the unemployment rate declining and our need for additional personnel reduced. Implementing this provision is cost-neutral to the state and very helpful to our agency. This money is provided through the current unemployment insurance program, which is perpetually appropriated.

D. Federal Assumption of State Share of Federal-State Extended Benefits

Federal assumption of the state's 50 percent liability for federal-state extended benefits through 2009 will reduce the draw on the state's Unemployment Insurance Trust Fund by about \$1.5 million this year, slightly easing the impact on employers' future tax rates as the fund is depleted. These funds are provided as needed through the current unemployment insurance program, which is perpetually appropriated. Implementing this provision is cost-neutral to the state. Reimbursable employers such as governments will still be responsible for their 50 percent of any federal-state extended benefit claims against them.

E. Partial Federal Income Tax Exemption on Benefits

The first \$2,400 in benefits paid in 2009 will be exempt from federal income taxes. That is a little over half the average total regular state benefit being paid now. If the state conforms with changes in the federal Internal Revenue Code, as it has traditionally, the exemption would become part of Idaho's tax laws for the 2009 tax year. This would affect an estimated 60,000 benefit claimants in Idaho. Senate Tax Committee Chairman Brent Hill has estimated the lost income tax revenue at \$4.7 million.

F. Interest-Free Loans

The ability to borrow money interest free once Idaho's Unemployment Insurance Trust Fund is depleted will save the state about \$470,000 a year for every \$10 million it borrows to continue paying benefits. Under current conditions, Idaho's fund is expected to go broke late this year, possibly in November. A bridge loan would be obtained from the federal government at that point to finance unemployment benefits until the next major tax payment by employers in April 2010. The amount of the loan is not certain at this time and will depend on the impact on the trust fund by future developments like the just-announced Micron layoffs. Any loan is expected to be repaid by the end of 2010 when the interest waiver expires. This loan is provided through the current unemployment insurance program, which is perpetually appropriated. Taking advantage of this provision imposes no additional cost to the state.

G. Unemployment Insurance Modernization

This provision gives the state the opportunity to receive a one-time Reed Act distribution of about \$32.3 million under certain conditions.

- About \$11 million will be distributed if the state adopts an alternative base period for determining benefit eligibility for unemployed workers who would not qualify for benefits under the traditional formula. This would affect less than 8 percent of all unemployment filers. Currently, claimant eligibility is based on earnings for the first four of the previous five completed quarters. The alternative base period will use the most recent completed quarter in cases where claimants fail to qualify under the traditional formula. To determine wage amounts

for the most recent quarter and handle anticipated increases in overpayments, the cost would be about \$65,000 one time for computer modifications and an estimated \$275,000 a year for staff time required in local offices, the Compliance Bureau and the Accounting Bureau. The proposal would increase benefits by about \$1 million. The infusion of the \$11 million into the trust fund would be immediate and would dampen increases over the next two to three years in employer tax rates. The depletion of the \$11 million to cover this expanded benefit would take about 11 years.

- If the alternative base period is adopted, then the state would be eligible for about \$22 million more in Reed Act money if it adopts two of four expanded benefit proposals. Since these four provisions were first suggested in 2007, the Department of Labor has conducted an extensive cost analysis of the four provisions and determined items 1 and 2 are cost prohibitive and will not result in any cost-savings to the state or businesses. The infusion of the \$22 million into the trust fund would be immediate and would dampen increases over the next two to three years in employer tax rates. The depletion of the \$22 million to cover the costs of the least expensive of these options would take about 11 years. While the stimulus legislation precludes sunset clauses on these provisions, there is nothing to suggest that a Legislature in five or 10 years could not rationally decide that these provisions were ill advised and repeal them. If any of the provisions were retained beyond the period financed by the new Reed Act distribution, there would be a long-term increase in employer tax rates to continue covering the expanded benefits. The options are:
 1. **Providing a dependent benefit of at least \$15 a week for no more than four dependents.** Half the claimants would qualify for this additional benefit at an estimated cost of about \$13 million a year.
 2. **Granting benefit eligibility to people who voluntarily quit their jobs for compelling family reasons.** About 4,000 claimants would qualify for benefits under this provision, receiving compensation for an average of 14 weeks each at an estimated cost of about \$15 million or more a year.
 3. **Providing additional benefits to workers in approved training who have exhausted all other benefit programs.** This would affect less than 1 percent of all claimants and cost \$1.5 million in additional payouts each year. There would be minimal administrative costs. Field staff will have to verify eligibility and make appropriate system entries.
 4. **Providing benefits to qualified claimants who only want to seek part-time work.** This would have an impact of \$500,000 a year on payouts but administrative costs would be minimal. Currently, jobless workers must be seeking full-time employment to remain eligible for benefits. This would open unemployment coverage to populations that traditionally rely on part-time work such as seniors and family care-givers.

Current legislation (HB248) being proposed in the 2009 Idaho Legislature incorporates the alternative base period, extended benefits for state-approved training and eligibility for laid-off part-time workers who want to seek only part-time work. When adopted, Idaho will receive its \$32.3 million Reed Act distribution. With this infusion, the significant unemployment insurance

tax increases forecast for Idaho's 50,000 employers in 2010 would be reduced by 10 percent to 15 percent. This will reduce the amount of money the state will have to borrow later this year when the Unemployment Insurance Trust Fund is expected to be depleted. Still, the Reed Act distribution will eventually be depleted, and employer taxes would have to rise to continue covering the expanded benefits. The Reed Act distribution is provided through the current unemployment insurance program, which is perpetually appropriated. If, however, the department wanted to use any of this money for a purpose other than paying benefits, legislative approval would be required.

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